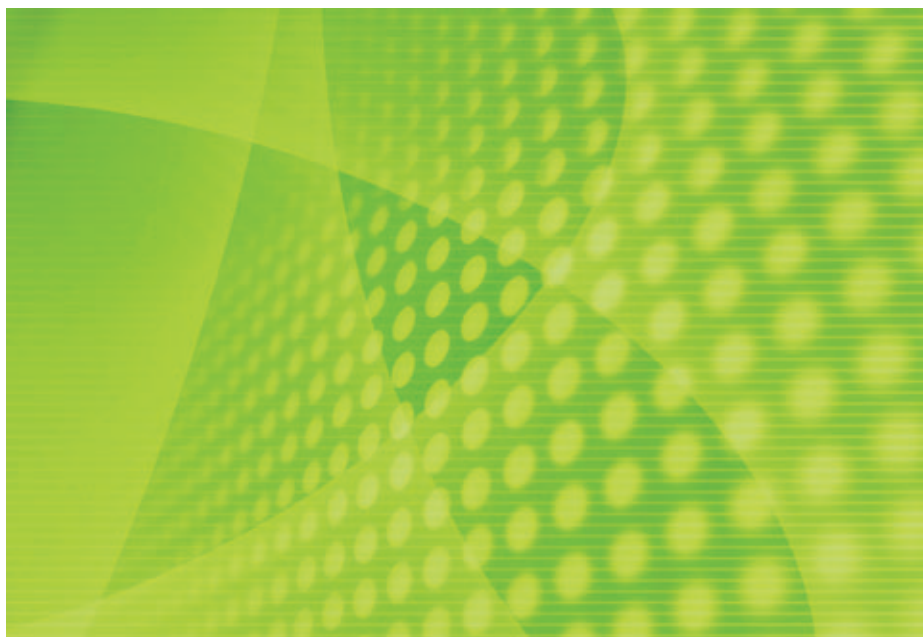


California Lottery Report to the Public

FOR THE FISCAL YEAR ENDED JUNE 30, 2009



*Committed to enhancing education
and supporting local communities.*





CALIFORNIA LOTTERY'S MISSION STATEMENT:

The California Lottery's mission is to maximize supplemental funding for public education through the responsible sale of lottery products.

HELPING SCHOOLS DURING TOUGH TIMES

Despite difficult economic conditions, the Lottery generated \$1 billion for schools and colleges in fiscal year 2008/2009 for the ninth year in a row.

As this new Report to the Public explains, Lottery employees worked hard to come up with entertaining new promotions and games to maintain sales during these tough economic times. During the past fiscal year, we introduced 41 Scratchers games, expanded our Web site, launched pages on Twitter and Facebook and added to our industry-leading network of video monitors to speak directly to players.

Over the years, the Lottery has contributed nearly \$22 billion to schools, which have spent the money in a variety of ways, including buying books, funding music programs and paying for field trips. Overall, lottery funds contribute about 1.3 percent of the budget for public schools.

The Lottery's biggest change took place last January, when we launched a fast-paced new television show, called *Make Me a Millionaire*, to replace *The Big Spin* program. The excitement generated by the show helped increase Scratchers ticket sales during the second half of the year, which allowed the Lottery to meet its sales goals.

Lottery players were also excited by a new program that gives them a second chance to win. It's called CA Replay and it allows players to register non-winning Scratchers tickets on our Web site, calottery.com, for a chance to win cash and prizes, including music downloads.

During the spring, the Lottery teamed up with the California Peace Officers Memorial Foundation on a Scratchers ticket that raised \$262,000 for the foundation, which provides money to the families of slain peace officers.

We also expanded our consumer protection program by educating players about how to guard against fraud and by continuing a sting operation to make sure retailers treat customers fairly. In an episode last year, *Dateline NBC* spotlighted our efforts, which have provided a model for lotteries around the nation.

During the past fiscal year, the Lottery launched an effort to develop a new business plan to improve our operations and provide a road map for steady growth in the future.

But any growth plan faces a major obstacle: the prize restrictions that constrain the Lottery. The experience of other states has proven that if the Legislature lifted those restrictions, the Lottery's sales would go up and we would earn more money for education.

We are hopeful that the Legislature will give us this chance.

In any case we are committed to continuing to improve our products and practices.

So please take the time to read this report and find out what we did last year and rest assured that we are busy implementing plans this year to generate every dollar for our schools that we can.

A stylized, handwritten signature of Joan Borucki in black ink.

JOAN BORUCKI | California Lottery Director

FINANCIAL HIGHLIGHTS

| SALES | FY 2008/2009 | CUMULATIVE OCT. 3, 1985 – JUNE 30, 2009 |
|---|-------------------------|---|
| Scratchers® | \$ 1,615,369,207 | \$ 24,918,145,430 |
| SuperLotto Plus® | \$ 536,157,532 | \$ 23,900,909,516 |
| MEGA Millions | \$ 347,687,435 | \$ 1,624,425,764 |
| Fantasy 5 | \$ 143,336,229 | \$ 2,736,560,657 |
| Daily 3 | \$ 132,076,461 | \$ 1,700,128,677 |
| Hot Spot® | \$ 126,361,926 | \$ 3,827,552,843 |
| Raffle | \$ — | \$ 25,815,927 |
| Daily Derby® | \$ 15,208,509 | \$ 475,363,885 |
| Daily 4 | \$ 38,641,795 | \$ 45,885,119 |
| Total Sales | \$ 2,954,839,094 | \$ 59,254,787,818 |
| Investment Proceeds from Portfolio Restructuring | \$ 16,132,183 | \$ 16,132,183 |
| Total Sales & Investment Proceeds | \$ 2,970,971,277 | \$ 59,270,920,001 |

PRIZE EXPENSES

| | | |
|-----------------------|-------------------------|--------------------------|
| Total Expenses | \$ 1,556,120,634 | \$ 30,544,794,402 |
|-----------------------|-------------------------|--------------------------|

ADMINISTRATIVE EXPENSES

| | | |
|--------------------------------------|-----------------------|-------------------------|
| Retailer Compensation | \$ 208,105,703 | \$ 3,867,041,947 |
| Direct Costs | \$ 50,904,431 | \$ 1,397,912,379 |
| Operating Expenses | \$ 137,180,433 | \$ 2,756,836,000 |
| Total Administrative Expenses | \$ 396,190,567 | \$ 8,021,790,326 |

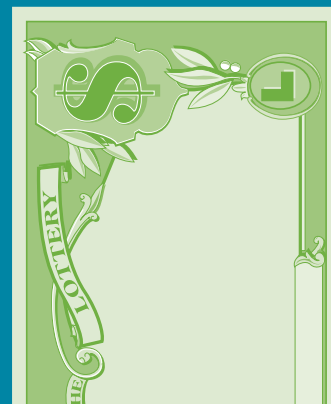
REVENUES TO EDUCATION

| | | |
|--|-------------------------|--------------------------|
| 34% of Sales & Investment Proceeds from Portfolio Restructuring | \$ 1,010,130,234 | \$ 20,152,112,799 |
| Administrative Savings | \$ 8,529,842 | \$ 552,222,474 |
| Interest Income | \$ 8,660,794 | \$ 408,472,501 |
| Unclaimed Prizes | \$ 20,964,857 | \$ 686,040,613 |
| Other Income | \$ 408,089 | \$ 8,928,994 |
| Total to Education | \$ 1,048,693,816 | \$ 21,807,777,381 |

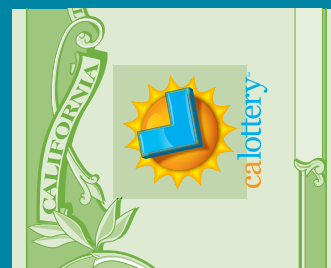
* As required by law, each year an independent accounting firm audits the California Lottery's financial statements. KPMG LLP conducted an independent audit of the Lottery's annual financial statements and issued an unqualified opinion on those statements as of and for the fiscal year ending June 30, 2009. The State Controller's Office and other independent accounting firms also audit various aspects of the Lottery's operations. For a copy of the audited financial statements, contact the California Lottery Communications Office, 600 North 10th Street, Sacramento, CA 95811.

For comprehensive financial information about the California Lottery, log on to www.calottery.com.

HOW YOUR LOTTERY DOLLAR IS SPENT



52.38¢
prizes



34.29¢
contributions to public education



7¢
retailer bonuses & commissions



4.62¢
operating expenses



1.71¢
game costs

The California Lottery provides supplemental funds for public education by the sale of creative and entertaining lottery products. (Graphic represents actual allocation of revenue for fiscal year 2008/2009.)



Celebrating the first "big win" on *Make Me a Millionaire* are hostess Liz Hernandez, Maria Theresa Sineriz (daughter), Josefina Sineriz (winner), host Mark Walberg, Robert Mosher (son-in-law).

Lottery Launches Exciting New TV Show



Sineriz said she plans to spend some of her winnings on the needs of her extended family, including relatives in the Philippines.

It was one of the biggest changes at the Lottery in years. On January 17, 2009, the California Lottery rolled out *Make Me a Millionaire*, a sleek, fast-paced game show that replaced *The Big Spin*, the Lottery's previous program. During its first calendar year, the show paid out \$19 million in prize money.

Soon after it launched in March 2009, the show gave away its first huge jackpot prize, \$2.8 million to Josefina Sineriz of Bakersfield. Sineriz said she plans to spend some of her winnings on the needs of her extended family, including relatives in the Philippines. "Why not share it?" she asked.

Sineriz won her fortune on the "Millionaire" segment, one of four games on the new show. The others are "Lucky Penny," "Safe Cracker" and "California Cool."

The show is hosted by Mark Walberg, the current host of PBS' *Antiques Roadshow* and co-hosted by Liz Hernandez from Los Angeles radio

station Power 106. *Make Me a Millionaire* is a partnership between the Lottery, 3 Ball Productions and Milestone Entertainment.

During the year, Lottery officials helped bring the excitement of the show to shoppers by replicating one segment, "Safe Cracker" at malls throughout the state. Shoppers were so delighted to be able to play the game that the tour will continue this fiscal year.

The show also helped the bottom line. Excitement generated by the show helped boost the sales of Scratchers tickets, allowing the Lottery to meet its goal of generating \$1 billion for schools for the ninth year in a row during the past fiscal year.

Players can become contestants on the Lottery's new television show by purchasing *Make Me a Millionaire* Scratchers and unveiling the words *TV SHOW* three times. Players can also purchase \$5 in Fantasy 5 tickets and receive a coupon that makes them eligible for a second-chance drawing to appear on the show.

LOTTERY HONORS OUTSTANDING EDUCATORS

Every day Lottery funds help support public schools and colleges in California, but the Lottery also spends a portion of its money on recognizing excellence in education. During the past year, the Lottery was proud to sponsor the *Teacher of the Year* program and the *Distinguished Schools* program and to be able to reward these dedicated educators by treating them to Major League Baseball games throughout California.



Lottery Director Joan Borucki (second right front) and Superintendent of Public Instruction Jack O'Connell (second right back) take distinguished teachers and school administrators out to the ball game.

School Employees Win Twice

SHASTA EDUCATORS SHARE \$76 MILLION JACKPOT WHILE ALSO SUPPORTING THEIR SCHOOLS

As a math teacher, Alicia Newman played the lottery for years for two main reasons: to have fun and to support schools like her own, which uses lottery funds to buy novels and books for English classes.

Since the Lottery began nearly 25 years ago, Newman and other players have contributed nearly \$22 billion to the public schools.

"Even before I was a teacher, I played, because I knew even if I didn't win, the money would go to a good, deserving cause," Newman said.

In February 2009 she did win. Newman and 14 other educators from Gateway Unified School District in

Shasta Lake, just north of Redding, won a \$76 million SuperLOTTO Plus jackpot, giving them all financial security for the rest of their lives.

Steve Gray, an assistant principal and winner, was the "Jackpot Captain" for the group.

"The most fantastic thing about the win is that we have 15 really good people—all of them hard-working educators—and now they get to realize their dreams," said Gray. "This just couldn't get any more perfect."

Lottery Director Joan Borucki called the win a "great day for these folks and a great day for the Lottery."

"At the California Lottery, we take our mission of supplementing school funding very seriously," Director Borucki said at a news conference. "Today, I have the rare privilege of giving millions of dollars directly to these hard-working educators."

At the start of the 2009-2010 school year half of the winning teachers and educators from Shasta Lake, including Newman and Helen Herd, the principal, were still on the job.

The win enabled Newman and Herd to make special contributions to their school, which has faced difficult budget cuts. Newman dipped into her own winnings to buy interactive white boards, one of which she uses every day in her math class. Herd, meanwhile, contributed some of her funds to help buy high technology projectors for 10 classrooms.



Lottery Launches Innovative Anti-Fraud Program

Integrity is the cornerstone of the California Lottery. This is why the Lottery maintains a force of investigators charged with, among other things, an aggressive consumer protection and retailer compliance program.

The Lottery's anti-fraud program has been such a success that it has attracted the attention of *Dateline NBC*, while emerging as a model for lotteries across the country.

The issue of retailer fraud was first highlighted in a series of reports done by the Canadian Broadcast Company's *Fifth Estate* that focused on retailers who took advantage of unsuspecting customers by failing to pay off winning lottery tickets.

The California undercover program is designed to make sure that retailers know that crime doesn't pay. The sting works like this: investigators posing as customers ask retailers to verify a ticket that they know should show up as a \$1,000 winner.

The overwhelming majority of retailers treat undercover investigators and all customers fairly. But sadly, a few clerks mislead the consumer and try to claim the ticket as their own. They are subject to arrest and prosecution.

As the undercover operation unfolded, *Dateline* was in the field with the Lottery's investigators several times. They broadcast the story in May of 2009.



The publicity that these operations generate deters crime. When undercover Lottery investigators return to an area where there has been a well-publicized sting operation, they find that theft attempts decline dramatically. In short, clerks and retailers get the message that they need to treat all customers fairly.

New Program Gives Players A Second Chance to Win!



In the effort to give its loyal customers even more chances to win great prizes, this year the California Lottery launched an innovative Web-based promotion called the Replay Program. The program, which was unveiled in the spring, gives players a second chance to win cash and prizes with their favorite Scratchers® games.

Second-chance draws give players another chance to win a secondary prize from a non-winning ticket. The

way it works is simple: players just need to save their non-winning Scratchers tickets that have the Replay logo on the back, log on to the Lottery's Replay Web site (<http://replay.calottery.com>) and enter the Ticket ID and Entry Code and they are entered into a drawing for a chance to win additional prizes.

To get started, players first must register. Once registered, players can enter as many eligible non-winning tickets as they like. Then, once a

drawing has occurred, all winners will be notified via email regarding the prize they won and can log in to their own personal prize accounts to see what they've won.

Potential prizes include cash, as well as other exciting prizes attained through Lottery partnerships with advertising partners.

Don't miss out on this exciting new feature from the California Lottery. Remember—every second counts.

LOTTERY SALUTES PEACE OFFICERS



It was one of the Lottery's most innovative partnerships, and it had a storybook ending.

Last spring, the Lottery teamed up with the California Peace Officers' Memorial Foundation, a non-profit charity dedicated to serving the needs of the families that slain peace officers leave behind. Together, the two organizations produced a special Scratchers ticket called "In the Line of Duty."

The Lottery is pleased "to team up with the Foundation to support the families left behind by peace officers who have made the ultimate sacrifice for our state," said Lottery Director Joan Borucki.

***"This Scratchers ticket
pays tribute to all
peace officers..."***

The ticket raised \$262,000 for the Foundation.

It also won praise from many officials.

"This Scratchers ticket pays tribute to all peace officers and gives needed assistance to the families of their fallen colleagues," said State Senator Lou Correa D-Anaheim. "It's a partnership where everyone benefits."

As it turned out a peace officer from Rialto won the top prize of \$10,000.

LOTTERY 2.0

In addition to the CA Replay site, the Lottery has launched other exciting Web-based tools this year, the most visible of which have been pages on social media sites, Facebook and Twitter.

The pages have been used to highlight winners, disseminate information about local promotions and events, and give away free music downloads and other Lottery promotional items.

Both sites are interactive. Fans ask many types of questions and provide useful feedback to Lottery staff.

In addition, Facebook fans often share winning experiences on the Lottery's wall. A California woman remarked after appearing on the Lottery's televised game show *Make Me a Millionaire*, "I had a great time... came home a winner!"

The Lottery's social media pages continue to grow, with more Facebook fans and Twitter followers joining each day.

To become a fan of the California Lottery on Facebook, visit www.facebook.com/calottery

To follow the California Lottery on Twitter, visit www.twitter.com/calottery

CALIFORNIA LOTTERY COMMISSION

The Lottery Commission is comprised of up to five members appointed by the Governor and confirmed by the California State Senate. During the 2008/2009 Fiscal Year, the bipartisan California Lottery Commission consisted of:



JOHN MASS
Chairman



MARGARET MIMS
Commissioner



C.C. YIN
Commissioner



Important Phone Numbers

Customer Service
1-800-LOTTERY

Corporate Communications
(916) 324-9639



DISTRICT OFFICES

San Francisco
(650) 875-2200

Inland Empire
(909) 806-4126

Sacramento
(916) 322-5136

Santa Fe Springs
(562) 906-6356

East Bay
(510) 670-4630

Santa Ana
(714) 708-0540

Central Valley
(559) 449-2430

San Diego
(858) 492-1700

Van Nuys
(818) 901-5006

The California Lottery also provides a help line for individuals or families to provide information, counseling and assistance for problem gambling. The help line number is:

PROBLEM GAMBLING HOTLINE:

1-800-GAMBLER

CALIFORNIA LOTTERY

600 NORTH 10TH STREET
SACRAMENTO, CA 95811
WWW.CALOTTERY.COM